

Presentation to the Board of Directors

PROJECT CHESAPEAKE

APRIL 26, 2001

OCC 009059

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Chesapeake, Inc. ("Chesapeake" or the "Company") has engaged Credit Suisse First Boston ("CSFB") to explore alternatives available to it in conjunction with various strategic alternatives.

- ▶ During the first phase of our engagement, CSFB undertook the following activities at the direction of Chesapeake:
 - Evaluated the operations, historical financial performance and future prospects of Chesapeake
 - Reviewed and confirmed the Case for Change analysis presented by Andersen Consulting and the Strategic Plan for Change adopted by the Company
 - Assisted Chesapeake in identifying and analyzing a range of strategic alternatives available to the Company
- ▶ During the second phase of our engagement, CSFB undertook the following activities at the direction of Chesapeake:
 - Identified and conducted a review of a range of potential strategic partners
 - Initiated discussions with a small number of potential strategic partners to determine if a strategic business combination could be effected that would address the Company's strategic goals
 - Solicited and assisted in negotiating transaction proposals from two potential partners
 - Preliminarily examined the proposed transaction under consideration from a financial point of view

PROCESS REVIEW

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PROCESS REVIEW

CSFB has been actively involved at every juncture of Chesapeake's strategic alternative process.

Date	Attendees	Topic
February 4, 2000	Senior Management CSFB	► Discussion included (i) overview of trends in the managed care industry; (ii) review of recent BCBS transactions; (iii) an assessment of strategic considerations relative to choosing a strategic alternative; and (iv) initial review of strategic alternatives.
April 24, 2000	Senior Management CSFB	► Discussion included (i) potential strategic opportunities; (ii) recent industry events; (iii) strategic considerations; and (iv) strategic evaluation process.
June 1, 2000	Strategic Planning Committee CSFB	► Discussion included (i) preliminary observations regarding the current market position and future prospects of Chesapeake; (ii) review of competitive market environment; (iii) key drivers of future success; and (iv) continued overview of strategic opportunities. Committee requested further analysis of opportunities.
June 22, 2000	Senior Management CSFB	► Discussion included (i) review of the range of strategic opportunities (maintain status quo, conversion to a for-profit stock corporation or pursuing a strategic affiliation or merger transaction); and (ii) review of potential merger partners and selection criteria.
July 11, 2000	Strategic Planning Committee CSFB	► Discussion included (i) analysis of strategic alternatives; (ii) review of potential strategic partners; and (iii) summary recommendations. Committee requested analysis of "do-ability" and precedent foundations.
July 13, 2000	Senior Management CSFB	► Discussion included update of trends in the managed care and BCBS industries.

PROCESS REVIEW (CONT'D)

Date	Attendees	Topic
July 27, 2000	Strategic Planning Committee CSFB	► Discussion recommendation included (i) review of initial recommendation to pursue a strategic affiliation or merger; (ii) review of potential transaction with either Atlantic or Highmark; (iii) steps necessary to complete such combination; (iv) review of "do-ability" analysis; (v) potential political and regulatory post-transaction control and governance issues; and (vi) relevant precedent transactions and foundations. Committee requested further analysis of alternatives with emphasis on developing Highmark alternative further.
August 23, 2000	Senior Management Highmark CSFB	► Meeting to discuss potential affiliation transaction with Highmark senior management team and information required for Strategic Planning Committee presentation.
August 28, 2000	Highmark CSFB	► Discussion of Chesapeake / Highmark business case analysis and potential transaction structure.
September 13, 2000	Senior Management Highmark CSFB	► Meeting to discuss draft of Strategic Planning Committee presentation and affiliation synergies with senior management of Highmark, Chesapeake and CSFB.
October 26, 2000	Strategic Planning Committee CSFB	► Discussion included (i) analysis of potential strategic affiliation or merger candidates across a variety of criteria; (ii) review of the steps necessary to complete a transaction; and (iii) potential transaction issues. Committee requested further analysis of Atlantic and Highmark alternatives.
November 21, 2000	Strategic Planning Committee Finance Committee CSFB	► Discussion included (i) side-by-side comparison of potential affiliation or merger candidates; (ii) analysis of the strategic transaction rationale across a number of criteria; and (iii) potential transaction structure. Committee requested further development of transaction criteria.
December 4, 2000	Board of Directors CSFB	► Discussion included (i) review of the current competitive strategic opportunities available (maintain the status quo, convert to a for-profit stock corporation, pursue a strategic merger or affiliation transaction); and (ii) review of potential affiliation merger partners and potential transaction issues. [Board requested that focus shift to Atlantic and Pacific opportunities].

PROCESS REVIEW (CONT'D)

Date	Attendees	Topic
January 22, 2001	Strategic Planning Committee CSFB	► Discussion included (i) analysis of a potential merger with either Atlantic or Pacific across a variety of key transaction issues (strategic goals, business case, economic benefit, do-ability and long-term strategy); and (ii) the process and timing of potential merger transaction. Committee requested that due diligence be conducted on Atlantic and Pacific opportunities.
January 24 - January 25, 2001	Senior Management Atlantic CSFB	► Due Diligence
January 31 - February 1, 2001	Senior Management Pacific CSFB	► Due Diligence
February 2, 2001	NA	► Distributed bidding procedures letter and draft Merger Agreement to Atlantic and Pacific.
February 5, 2001	NA	► Received letter from Anthem, Inc. expressing their interest in being included in the acquisition process.
February 13, 2001	NA	► Chesapeake sent a letter to Anthem, Inc. explaining why Chesapeake declined to include Anthem in the acquisition process due to concerns over (i) strategic / constituent benefits; (ii) access to capital; (iii) certainty of closure; and (iv) governance.
February 22, 2001	Strategic Planning Committee CSFB	► Discussion included (i) review of due diligence findings; (ii) key transaction issues to be considered in evaluating a potential strategic transaction; (iii) side-by-side comparison of key transaction issues related to Atlantic and Pacific; and (iv) analysis of potential competitive responses to either a Chesapeake / Atlantic combination or a Chesapeake / Pacific combination. Committee action.
March 2, 2001	NA	► Received preliminary bids and mark-up of Merger Agreement from Atlantic and Pacific.

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PROCESS REVIEW (CONT'D)

Date	Attendees	Topic
March 15, 2001	NA	► Received letters from Atlantic and Pacific clarifying and amending initial proposal dated March 2, 2001.
March 18, 2001	NA	► Received letter from Atlantic clarifying and amending revised proposal letter dated March 15, 2001.
March 19, 2001	NA	► Received letter from Pacific clarifying and amending revised proposal letter dated March 15, 2001.
March 23, 2001	Strategic Planning Committee CSFB	► Discussion included (i) review of revised side-by-side analysis of the Atlantic and Pacific merger proposals; and (ii) desired outcomes analysis. [Committee Action]
March 28, 2001	Dinner with Tom Sneed	► Discussion included potential Atlantic / Chesapeake combination and combined entity's likely future operating strategy.
April 11, 2001	Meeting with Leonard Schaeffer and David Colby	► Discussion included potential Pacific / Chesapeake combination and combined entity's likely future operating strategy.
April 23, 2001	NA	► Received best and final proposal from Atlantic
April 24, 2001	NA	► Received best and final proposal from Pacific

REVIEW OF PACIFIC PROPOSAL

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SUMMARY OF KEY PROPOSED TERMS

The following analysis highlights the key terms of the Pacific proposal, subject to confirmatory due diligence and final negotiation of the merger agreement.

Price	▶ \$1.3 billion
Form of Consideration	▶ \$450 million cash / \$850 million stock (minimum cash component of \$450 million with option to increase relative cash component up to 100% at closing)
Accounting Treatment	▶ Purchase Accounting
Exchange Ratio	▶ Fixed price for stock component if Pacific's stock price is above \$70 per share; if price falls below minimum, Pacific will issue Subordinated Notes to Chesapeake in place of common stock to maintain the \$1.3 billion purchase price
Stock Price Floor	▶ Chesapeake has the sole right to terminate if Pacific's average closing stock price in the 20 days prior to closing date falls below \$70
Termination Provisions	<p>▶ Chesapeake would pay Pacific a \$37.5 million termination fee if the agreement is terminated by (i) Chesapeake for a superior proposal; or (ii) Pacific because Chesapeake has breached the agreement and Chesapeake enters into an agreement within 12 months following termination</p> <p>▶ Chesapeake has fiduciary out subject to Pacific's right to match competing proposal</p> <p>▶ Agreement may be terminated by either party if transaction is not consummated before 3 year anniversary</p>
Representations & Warranties	▶ Usual and customary

SUMMARY OF KEY PROPOSED TERMS (CONT'D)

Board Representation	<ul style="list-style-type: none"> ▶ One Director in a total of nine on holding company board ▶ Pacific has indicated their intention to invite each current Chesapeake board member to serve an initial two-year term on an advisory board
Management	<ul style="list-style-type: none"> ▶ Pacific's organizational structure would be realigned geographically; Eastern Region would extend southward along the east coast at least from Delaware south through and including Georgia ▶ Chesapeake's CEO would be responsible for Pacific's Eastern Region and would report directly to Pacific's CEO
Headquarters Location	<ul style="list-style-type: none"> ▶ Chesapeake's operating company corporate headquarters would not move
Commitment to Chesapeake Prior to Closing	<ul style="list-style-type: none"> ▶ Pacific has indicated its willingness to create a joint venture with Chesapeake in Virginia where Pacific would contribute all of its UNICARE members, as well as capital ▶ Willingness to standby as a source of funding to the extent Chesapeake needs capital between signing and closing of the transaction

PURCHASE PRICE MULTIPLES

Pacific proposes to acquire Chesapeake for a \$1.3 billion Equity Purchase Price.

(\$ in millions)

IMPLIED TRANSACTION MULTIPLES

Equity Purchase Price	\$1,300.0
2001E Net Income (1)	\$71.6
2002E Net Income (1)	89.3
Equity Value /:	
2001E Net Income	18.2x
2002E Net Income	14.6x

(1) Source: Chesapeake management. Assumes a 38.0% effective tax rate.